

Message Text

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P R 180725Z AUG 78
FM AMEMBASSY BELGRADE
TO SECSTATE WASHDC PRIORITY 7644
INFO AMEMBASSY MOSCOW
USLO PEKING
AMCONSUL ZAGREB
AMEMBASSY BUCHAREST

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TAGS: ETRD, ECON, CH, YO
SUBJ: CHINESE/YUGOSLAV ECONOMIC RELATIONS ON EVE OF HUA KUO-
FENG VISIT TO YUGOSLAVIA

SUMMARY: ON EVE OF HUA KUO-FENG VISIT TO YUGOSLAVIA, CHINESE
COMMERCIAL COUNSELOR DISCUSSED WITH EMBOFFS STATUS OF CHINESE/
YUGOSLAV ECONOMIC RELATIONS, EXPECTED PURCHASES OF CHINESE OIL
AND COKING COAL BY YUGOSLAVIA, AND MUTUAL DESIRES TO INCREASE
TRADE AND INDUSTRIAL COOPERATION. WITHOUT SPECIFICALLY CONFIRM-
ING THE POINT, HE GAVE THE IMPRESSION THAT NEWSPAPER REPORTS OF
A LONG-TERM TRADE AGREEMENT TO BE SIGNED DURING THE VISIT ARE
ACCURATE. CHINESE PURCHASES FROM YUGOSLAVIA WILL BE SHIPS AND
SHIP ENGINES, TRACTORS AND AGRICULTURAL MACHINERY. BOTH SIDES
CLEARLY INTERESTED IN INCREASED TRADE AND ECONOMIC RELATIONS
BUT CHINESE COMMERCIAL COUNSELOR RECOGNIZED THAT "A LOT OF
WORK" MUST BE DONE TO REACH EXPRESSED GOALS. END SUMMARY.

1. OIL: CONFIRMING PRESS ACCOUNTS OF YUGOSLAV INTEREST IN OIL
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FROM CHINA, CHINESE COMMERCIAL COUNSELOR SAID THAT YUGOSLAVIA
WILL PURCHASE CHINESE OIL, BUT HE WOULD NOT SPECIFY THE AMOUNT
NOR WHEN THE PURCHASES WILL BEGIN. A POLISH DIPLOMAT HAD TOLD
AN EMBOFF EARLIER THAT YUGOSLAVIA WOULD AGREE TO PURCHASE UP
TO 3 MILLION TONS A YEAR. (COMMENT: YUGOSLAVIA NOW IMPORTS OVER
10 MILLION TONS OF OIL YEARLY, OR 70 PERCENT OF ITS OIL CONSUMP-
TION. FOUR TO FIVE MILLION TONS COMES FROM THE SOVIET UNION AND

THE REST FROM THE MIDDLE EAST, MOSTLY IRAQ, PARTLY FOR HARD CURRENCY. YUGOSLAVIA HAS SHOWN INTEREST IN EXPANDING ITS OIL SUPPLY SOURCES AND IMPORT OF OIL FROM CHINA THUS SERVES BOTH POLITICAL AND ECONOMIC OBJECTIVES. THE FIRST HINT FROM THE YUGOSLAV SIDE THAT OIL WOULD BE AMONG IMPORTS FROM CHINA WAS TV STATEMENT AUGUST 2 BY FORMER VICE PREMIER BERISLAV SEFER THAT YUGOSLAVIA IS INTERESTED IN PURCHASING "VITAL AND STRATEGIC MATERIALS" FROM CHINA.)

2. COKING COAL: CHINESE COMMERCIAL COUNSELOR ALSO SAID THEY EXPECT CONCLUDE AGREEMENT FOR YUGOSLAV IMPORT OF CHINESE COKING COAL BUT DID NOT REVEAL AMOUNT. (COMMENT: YUGOSLAVIA NEEDS TO EXPAND ITS SOURCES FOR THIS ITEM, AS WELL, BECAUSE DOMESTIC COAL DEVELOPMENT IS BEHIND SCHEDULE.)

3. LONG-TERM COMMERCIAL AGREEMENT: YUGOSLAV PRESS HAS STATED THAT TWO COUNTRIES WILL SIGN SUCH AN AGREEMENT "SHORTLY". HUA KUO-FENG VISIT WOULD BE APPROPRIATE TIME FOR SIGNING. WHILE CHINESE COMMERCIAL COUNSELOR WOULD NOT SPECIFICALLY CONFIRM THAT IT WILL BE SIGNED, HE GAVE CLEAR IMPRESSION IT WOULD BE.

4. TRADE: CHINESE COUNSELOR CONFIRMED YUGOSLAV PRESS REPORTS THAT 1978 TWO-WAY TRADE LIKELY TO REACH 180 TO 200 MILLION DOLLARS, UP FROM ABOUT 70 MILLION DOLLARS IN 1977. HE STRESSED, HOWEVER, THAT THIS WOULD TAKE "A LOT OF WORK BY BOTH SIDES" AND EXPRESSED DISAPPOINTMENT WITH PRICE AND QUALITY OF YUGOSLAV CONFIDENTIAL

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GOODS, A COMPLAINT SHARED BY A NUMBER OF OTHER YUGOSLAV TRADE PARTNERS. EXPANDING ON PRESS ACCOUNTS WHICH REPORT THE SIGNING OF AGREEMENTS FOR TEN BULK FREIGHTERS TO BE BUILT IN YUGOSLAV SHIPYARDS FOR CHINA, HE SAID THAT THERE ARE DISCUSSIONS UNDERWAY FOR FIVE MORE FREIGHTERS. CHINA HAS ALSO AGREED TO PURCHASE 20 DIESEL MOTORS FROM YUGOSLAVIA. NOT ALL OF THIS PRODUCTION, SHIPS AND DIESEL MOTORS, WILL FIGURE IN THIS YEAR'S TRADE STATISTICS. IN ADDITION, CHINA WILL PURCHASE TRACTORS AND OTHER AGRICULTURAL MACHINERY. (COMMENT: IF YUGOSLAVIA DOES BY CHINESE OIL IN LARGE QUANTITIES, IT WILL NEED TO STEP UP ITS EXPORT SALES TO CHINA SIGNIFICANTLY AND THE ITEMS MENTIONED BY THE CHINESE COUNSELOR WOULD BE IMPORTANT AS MEANS OF PAYMENT. CHINESE/YUGOSLAV TRADE, ACCORDING TO THE COUNSELOR, IS NOT CONDUCTED UNDER A CLEARING AGREEMENT, BUT IS NEGOTIATED IN HARD CURRENCY ACCOUNTS ON NORMAL COMMERCIAL TERMS; FINANCING HAS NOT BEEN USED THUS FAR.)

5. INDUSTRIAL COOPERATION AND COOPERATION IN THIRD MARKETS: YUGOSLAV PRESS HAS EMPHASIZED EXPECTED EXPANDED INDUSTRIAL COOPERATION AND LIKELIHOOD OF COOPERATION BETWEEN YUGOSLAVIA AND CHINA IN THIRD MARKETS. CHINESE COUNSELOR SAID HIS COUNTRY VERY INTERESTED IN EXPANDING INDUSTRIAL COOPERATION, WITHOUT,

HOWEVER, SPECIFYING DETAILS, BUT STATED CHINA HAS LITTLE INTEREST IN COOPERATION WITH YUGOSLAVIA IN THIRD MARKETS, PREFERRING TO DEAL WITH THIRD COUNTRIES DIRECTLY.

6. COMMENT: IN 1978 THERE HAVE BEEN ABOUT 30 CHINESE DELEGATIONS VISITING YUGOSLAVIA, MOST OF THEM CONCERNED IN ONE WAY OR ANOTHER WITH ECONOMIC/COMMERCIAL TIES. THERE ARE REPORTS WHICH THE CHINESE COUNSELOR DID NOT WANT TO CONFIRM THAT THE PRESENT JOINT CHINESE/YUGOSLAV ECONOMIC COMMISSION WHICH IS CHAIRED ON EACH SIDE BY AN ASSISTANT SECRETARY FOR FOREIGN TRADE WILL BE UPGRADED TO THE LEVEL OF DEPUTY PREMIER. WE HAVE ALSO HEARD THAT THE CHINESE MINISTER OF FINANCE WILL VISIT HERE IN SEPTEMBER AT WHICH TIME FINANCING OF JOINT PROJECTS MAY BE DISCUSSED. ONE YUGOSLAV SOURCE IN SECRETARIAT FOR FINANCE STATED THAT AGENDA WILL INCLUDE
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DISCUSSION OF POSSIBLE COOPERATION BETWEEN YUGOSLAVIA, CHINA AND THE UNITED STATES. YUGOSLAVIA HAS ALSO ANNOUNCED THAT IT WILL HOLD AN INDUSTRIAL EXHIBITION WITH 180 YUGOSLAV ORGANIZATIONS PARTICIPATING IN PEKING IN APRIL 1979.

7. YUGOSLAV COMMENTATORS STATED THAT TRADE AND ECONOMIC RELATIONS BETWEEN THE TWO COUNTRIES HAVE NOT KEPT PACE WITH THE DEVELOPMENT OF POLITICAL RELATIONS. GIVEN THE PACE AT WHICH THE LATTER HAVE DEVELOPED, IT IS HARDLY POSSIBLE THAT THEY COULD HAVE. WITHIN ONE YEAR AFTER THE TITO VISIT TO CHINA, PARTY RELATIONS HAVE BEEN ESTABLISHED, HUA IS VISITING YUGOSLAVIA AND THE CHINESE ARE ENJOYING AN EXCEPTIONALLY FAVORABLE COVERAGE THROUGHOUT THIS COUNTRY. TRADE OBVIOUSLY TAKES LONGER TO DEVELOP, BUT IT IS APPARENT THAT THE WILL EXISTS ON BOTH SIDES TO FIND SIGNIFICANT NEW WAYS TO EXPAND TRADE--OIL, FOR INSTANCE--AND BOTH SIDES CAN BE EXPECTED TO ESTABLISH THE NECESSARY MECHANISMS TO ASSURE AS MUCH EXPANSION OF TRADE AS POSSIBLE. THE CHINESE COUNSELOR'S COMMENTS ABOUT PRICE AND QUALITY OF YUGOSLAV GOODS, HOWEVER, AND HIS CRITICISM OF THE WORK OF YUGOSLAV COMMERCIAL REPRESENTATIVES ABROAD SHOW THAT THERE ARE OBJECTIVE FACTORS WHICH NEED BE OVERCOME EVEN WHEN THE POLITICAL WILL EXISTS.
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